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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) for Authority to Securitize Certain Costs and Expenses Pursuant to Public Utilities Code Section 850 *et seq.*	Application No. 20-07-008

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) REPLY BRIEF

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Pursuant to Rule 13.11 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, and the schedule adopted by ALJ Jungreis, Southern California Edison Company (SCE) respectfully submits this Reply Brief in support of its Application for authority to finance through securitization certain costs and expenses pursuant to Public Utilities Code Section 850 *et seq*.

I.

SUMMARY OF REPLY/SUBJECT INDEX

SCE, Public Advocates Office at the Commission ("Cal Advocates"), The Coalition of California Utility Employees ("CUE"), The Utility Reform Network ("TURN"), the Energy Producers and Users Coalition ("EPUC"), Wild Tree Foundation ("Wild Tree"), and California Large Energy Consumers Association ("CLECA") filed Opening Briefs in this proceeding.

The Opening Briefs indicate that this Commission can approve SCE's Application without delay. Of the issues set forth in the Scoping Memo for this proceeding, the first three – whether the eligible costs to be securitized ("Recovery Costs") are just and reasonable, whether the Recovery Bonds are just and reasonable, and whether the Recovery Bonds are consistent with the public interest – are either uncontested or hinge on resolution of the fourth Scoping Memo issue.

The fourth Scoping Memo issue considers whether the proposed Recovery Bonds reduce customer rates "to the maximum extent possible" not on an absolute basis, but as compared to traditional utility debt and equity financing, as required by AB 1054.[1] As explained in Section 4, below, SCE has provided this comparison, demonstrating that the proposed process to issue Recovery Bonds will reduce customer rates to the maximum extent possible, compared to traditional utility financing. Cal Advocates agrees, concluding that "SCE's proposed securitization structure is reasonable and intended to achieve the highest credit rating, and, SCE's competitive bidding process is implemented to obtain the lowest practical total cost to ratepayers.."[2] CUE supports SCE's Application in full.

Other parties question whether SCE's Application reduces customer rates to the maximum extent possible. Their principle objection centers around the process for finalizing the Recovery Bond terms between issuance of the financing order and consummation of the Recovery Bond transaction. Nevertheless, they accept that with certain post-Financing Order process changes, a Financing Order can issue.

TURN moves away from its original position seeking one delayed transaction for the Total AB 1054 CapEx, instead aligning with Wild Tree's recommendation that the Commission create a financing team to provide post-Financing Order, pre-issuance oversight. SCE has consistently maintained its willingness to work collaboratively and in close coordination with the Commission, Energy Division, Legal Division, and financial advisors whom the Commission, in its discretion, may elect to retain in exercising its oversight functions. SCE's has enumerated and elaborated upon these collaborative efforts in its testimony, data request responses, and Opening Brief.[3] SCE is also willing to include certain customer protections, as the Commission deems appropriate, consistent with those recommended by other parties, as discussed herein.

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1 *See* Cal. Pub. Util. Code §§850 – 850.8 (2020) enacted by SB 901, AB 1054 and AB 1513. Unless otherwise noted, all references to "Section" are to the California Public Utilities Code. Section 850.1(a)(1)(A)(ii)(III) includes the "maximum extent possible" standard.

2 Cal Advocates Opening Brief, p. 9.

3 SCE Opening Brief, pp. 11-12.

Beyond those process issues, there are just a few other issues in the proceeding, but they can be resolved in a final decision without delay. EPUC's challenges to SCE's statutory comparison related to underlying interest rate assumptions, accounting, and tax treatment have not developed beyond their testimony; SCE disposed of these issues in its Opening Brief. CLECA supports EPUC's position but does nothing to further develop it. SCE is also willing to include greater flexibility on the tenor of the Recovery Bonds, if the Commission sees fit.

Even rate allocation disputes can be easily resolved. As SCE explained in its Opening Brief, the GRC Phase 2 Settlement Agreement governs rate allocation generally and use of a distribution rate factor is appropriate for these costs. CLECA and CUE agree, as does EPUC (with very modest changes that can be addressed in the GRC Phase 2). TURN and Cal Advocates also agree that allocation treatment can be addressed in SCE's upcoming GRC Phase 2 proceeding, rather than as a condition to issuing a Financing Order. They disagree with SCE's allocation of the CARE/FERA exemption, which SCE addresses in its Opening Brief and herein.

Parties generally oppose SCE's proposal to use a Tier 3 advice letter for future financing order requests, despite clear statutory language supporting SCE's approach. The statute requires that the Commission "establish, *as part of the financing order*, a procedure for the electrical corporation to submit future financing orders." It further provides that the application "may take the form of a resolution," which issues from a Tier 3 Advice Letter, not an application filed in a docketed proceeding. SCE maintains that a formal application process is simply unsuited for similar follow-on financing order requests. Use of a formal application in all cases may unnecessarily draw on scarce Commission resources, particularly for the ALJ Division.

Finally, Wild Tree's suggestion that only a rulemaking can set the procedural terms for future financing orders has no statutory or practical basis. By its very design, the statute does not leave room for a rulemaking; rather, it specifies that the procedure for obtaining future financing orders will be included in the original, utility-specific financing order, the latter of which is to be resolved within 120-days of filing an application. Even apart from the plain language of the statute, the absence of such a rulemaking requirement in the statute (and inclusion of such

requirement in companion Wildfire Fund legislation) indicates a clear legislative intent *not* to require such a rulemaking here.

Finally, CUE agrees with SCE's proposal to exclude the debt from its authorized capital structure and no intervenor opposes this treatment.

II.

ARGUMENT

A. Scoping Memo Issues

1. The Recovery Costs Sought To Be Reimbursed Are Just And Reasonable, In Compliance With Public Utilities Code § 850.1(a)(1)(A)(i)

All intervenors who take a position agree that the costs are just and reasonable.[4]

2. The Proposed Recovery Bonds Are Just And Reasonable, In Compliance With Public Utilities Code § 850.1(a)(1)(A)(ii)(I)

SCE described the process for issuance of Recovery Bonds in detail in Exhibits SCE-02, and SCE-03 and in its Opening Brief. SCE's bond structure and the material terms of the Recovery Bonds, including the Fixed Recovery Charge, are reasonable and designed to ensure the lowest-cost, highest-rated bonds available in the utility securitization market.

Cal Advocates reviewed SCE's true-up mechanism, approach to third-party servicing, competitive bidding process for selecting the structuring advisor, and nonbypassable charge requirements and found "no issue with these structuring requirements, which serve to provide a high credit rating and lower costs to ratepayers by providing greater assurances to potential investors."[5] Cal Advocates likewise concluded that SCE's upfront financing cost estimates are comparable to other utility securitizations. CUE also agrees that SCE meets this standard.[6]

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4 Cal Advocates Opening Brief, pp. 6-7, CLECA Opening Brief, pp. 2-3, TURN Opening Brief, pp. 3-4 (but takes no position re AFUDC and overhead).

5 Exhibit PAO-1 (Waterworth), p. 5.

6 Exhibit CUE (Earle), p. 1.

Arguments of other parties on this issue are based on arguments with respect to reducing customer costs to the maximum extent possible,[7] which is a distinct statutory requirement and scoping issue that is addressed in Subsection 4 below.

3. The Proposed Recovery Bonds Are Consistent With The Public Interest, In Compliance With Public Utilities Code § 850.1(a)(1)(A)(ii)(II)

CUE agrees with SCE that its proposal for financing through securitization is in the public interest, by reducing customer costs. CUE adds that "securitization benefits the State's goals of preventing wildfires and reducing greenhouse gas emissions."[8]

EPUC argues that alignment of securitization bond terms with the expected useful operating lives of the assets is within the public interest.[9] SCE explains in its Opening Brief and Section 4 how SCE's proposal meets this requirement. CLECA concludes that the Recovery Bonds are "perhaps" in the public interest, provided they are issued only for amounts that have been found to be reasonable, and provided the Commission ensures that the applicant properly evaluates options for structuring securitization transactions.[10] As SCE has explained, SCE has committed to working collaboratively and transparently with the Commission to ensure that all of these conditions are met.

Arguments of other parties on this issue are based on arguments with respect to reducing customer costs to the maximum extent possible,[11] which is a distinct statutory requirement and scoping issue that is addressed in Subsection 4 below.

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7 *See* TURN Opening Brief, pp. 4-5, Wild Tree Opening Brief, p. 7 (addressing Scoping memo issues 2-4 together), CLECA Opening Brief, p. 3 (focusing on cost minimization).
8 CUE Opening Brief, pp. 4-5.
9 EPUC Opening Brief, p. 3.
10 CLECA Opening Brief, p. 4.
11 *See* TURN Opening Brief, pp. 4-5, Wild Tree Opening Brief, p. 7 (addressing Scoping memo issues 2-4 together), CLECA Opening Brief, p. 3 (focusing on cost minimization).

4. The Proposed Recovery Bonds Would Reduce Consumer Rates To The Maximum Extent Possible Compared To Traditional Utility Financing Mechanisms, In Compliance With Public Utilities Code Section 850.1(a)(1)(A)(ii)(III)

SCE provided a comparative analysis, per Section 850(a)(1)(A)(ii)(III), showing significant savings from securitization compared with traditional utility financing[12] and proposed a thorough post-Financing Order process to reduce costs to customers to the maximum extent possible. CUE agrees with SCE's analysis that these savings reduced customer rates to the maximum extent possible, noting that "$173.5 million in present value compared with traditional ratemaking is significantly more than could be accomplished using SCE's debt financing, which would result in just $52.5 million in present value savings for ratepayers."[13] Cal Advocates, whose stated mission is to obtain the lowest possible rate for service consistent with reliable and safe service levels agreed, concluded that "SCE's proposed securitization structure is reasonable and intended to achieve the highest credit rating, and, SCE's competitive bidding process is implemented to obtain the lowest practical total cost to ratepayers."[14]

Other parties raise several issues regarding SCE's demonstration that its approach will reduce customer costs to the maximum extent possible compared to traditional utility financing mechanisms. The principal objection raised by intervenors is the process for finalizing the Recovery Bond terms between issuance of the Financing Order and consummation of the Recovery Bond transaction. SCE submits that for the reasons below, the process SCE has proposed is more than sufficient to ensure that the statutory requirement is satisfied. SCE addresses certain other items raised in the opening briefs of the intervenors in Subsection 4(b) through 4(g) below, much of which was already addressed in SCE's Opening Brief.

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[12] *See* Exhibit SCE-04.
[13] CUE Opening Brief, p. 5.
[14] Cal Advocates Opening Brief, p. 9.

a) SCE Has Provided Sufficient Information About the Terms and a Robust Process to Ensure Rates are Reduced to the Maximum Extent Possible as Compared to Traditional Utility Financing

Wild Tree wrongly criticizes SCE's Application for lacking clear terms and conditions "including interest rates, rating, amortization redemption, and maturity, and the imposition and collection of fixed recovery charges."[15] SCE has provided preliminary terms for each and every one of the material terms and conditions listed above for this transaction. It is the nature of a securitization transaction that the final terms described are subject to the prevailing terms when the issue is priced at market, which Wild Tree itself recognizes.[16] The only question is the process by which the final terms are set and reviewed by the Commission.

Wild Tree insists that "the only way that SCE can demonstrate in this proceeding that its bond will reduce, to the maximum extent possible, the rates on a present value basis" is through the use of "a pre-issuance review process utilizing a financing team comprised of the utility, the Commission and its staff, and independent experts."[17] TURN originally called for the Commission to disapprove SCE's application, but states "with the benefit of having since then reviewed the testimony of other intervenors," TURN urges the Commission to instead implement Wild Tree's proposal of creating a Financing Team.[18] TURN notes that this Financing Team approach was used by PG&E in its 2004 securitization and consisted of the agency's General Counsel, head of Energy Division, and outside bond counsel.[19]

Wild Tree advocates substantial changes to the Financing Order based on "best practices" to reduce costs to customers to the maximum extent possible.[20] Many of these changes center

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15 Wild Tree Opening Brief, p. 7.
16 Wild Tree Opening Brief, p. 9 (acknowledging that "over the course of the pre-pricing period of a bond offering, many deal structures will be analyzed repeatedly as benchmark U.S. Treasuries and credit spreads move around.").
17 Wild Tree Opening Brief, p. 26.
18 TURN Opening Brief, p. 2.
19 TURN Opening Brief, pp. 9-10.
20 Wild Tree Opening Brief, pp. 32-33.

around the retention of and near total delegation of authority to an independent financial advisor. As shown in the table below, SCE has included customer protections in each of the categories raised by Wild Tree. These protections are included in SCE's proposed Financing Order or have been addressed in its Opening Brief and Application.

Summary of Wild Tree Financing Order Changes	Summary of SCE's Similar Customer Protection Enhancements
Pre-issuance review process: to determine all financing matters related to structure, marketing and pricing of the bonds including the selection of underwriters.	SCE proposed to: • Collaborate with Energy Division in a pre-issuance review process of all material financing terms.[21] • Provide Commission early drafts of the Issuance Advice Letter, to give time to review/answer questions.[22] • Provide Commission drafts of the prospectus and other materials to be used for marketing and selling the bonds.[23]
Financing Team: to include SCE, its advisors, the Commission and staff, and advisors with assistance from outside expert.	SCE proposes to work collaboratively and in close coordination with the Commission, Energy Division, Legal Division, and to the extent the Commission deems necessary in exercising its oversight role, financial advisors of its own.[24]
Certifications: provided by SCE, lead underwriter, the Commission's financial advisor and the Commission's independent advisor.	SCE agrees to provide certifications from itself and its underwriter.[25] SCE takes no position on whether the Commission should retain independent financial advisors or whether certifications from such advisors would be necessary.
Issuance Advice Letter Approval: Independent advisor to submit certification within 2 business days after pricing, Commission may issue a stop order within four business days after pricing.	SCE's Issuance Advice Letter shall automatically be approved unless, before noon on the fourth business day after pricing, the Commission issues an order finding that the proposed issuance does not comply with the requirements of the Financing Order. (Financing Order, Ordering Paragraph 32).
Servicing terms: • The utility should indemnify ratepayers for negligent acts[26] • Excess servicing fees credited to customers through traditional ratemaking	SCE is willing to provide consumer protections, including ratepayer indemnity for servicer misconduct, Commission consent to amendments of transaction documents and rights to enforce servicer obligations as permitted by law.[27]

[21] SCE Opening Brief, p. 17; Exhibit SCE-03, pp. 26-27, Financing Order, App. Appendix D, p. 24.
[22] PAO-SCE-001-LMW Q. 001 and SCE Opening Brief, p. 17.
[23] SCE Opening Brief, p. 17.
[24] *See* Exhibit SCE-03, p. 27 ("As and to the extent required by the Commission, any Commission representatives would be updated continuously throughout the marketing and pricing process to ensure timely final approval of the Recovery Bond transaction."). *See also,* SCE Opening Brief, p. 5, pp. 16-18, and 32; Application Appendix D (Draft Financing Order), p. 24.
[25] SCE Opening Brief, p. 18; WTF-SCE-001, 002.a-d.
[26] Wild Tree Opening Brief, p. 35.
[27] *See* WTF-SCE-001 Q.001.e; SCE Opening Brief, p. 18, n. 50; SCE-03, p. 7. *See also,* WTF-SCE-001: 009.a-c (explain that SCE's servicing fee is reasonable).

The Commission is no stranger to utility securitizations and other complex financial transactions, and its approach here should be rooted in its own experience and practice. The Commission and the Commission's Energy Division have knowledgeable and dedicated staff, counsel, and consulting resources to draw upon in assessing and overseeing utility debt transactions. The Commission is in the best position to determine what resources it needs to achieve the appropriate level of oversight over this transaction and what advisory services, customer protections and structural enhancements will have a material impact on reducing overall costs to customers.

b) Wild Tree's Claims of Conflicts of Interest are Baseless

Wild Tree asserts that SCE, its advisor, and its underwriters lack the incentive to get the best deal for SCE's customers. Wild Tree misstates SCE's plan post-Financing Order to "rely entirely" (Wild Tree's words, not SCE's)[28] on the advice of underwriters, referencing SCE's "blind reliance on the post-financing order actions of underwriters."[29] Wild Tree also, without basis or explanation, attacks the "unreasonable decision" SCE "has made in regards to selection of and reliance upon a structuring advisor and underwriters."[30] Wild Tree uses these contortions of the record to then advocate for an independent advisor as well as myriad customer protections, many of which involve review and oversight by this independent financial advisor.

In fact, SCE, its advisors and underwriters have strong incentives to achieve the lowest possible costs for SCE's customers, including a statutory mandate to do so. SCE explains its strong incentive to reduce customer rates in its Opening Brief.[31] SCE and the reputable advisors and underwriters it intends to engage will have incentives to protect their reputations, integrity, and good standing at the Commission. The fact that this is a phased securitization means that the potential for future phases will provide an additional incentive for these advisors to help achieve

[28] Wild Tree Opening Brief, p. 12, 16.
[29] Wild Tree Opening Brief, p. 17.
[30] Wild Tree Opening Brief, p. 13.
[31] SCE Opening Brief, pp. 16-17.

the best results for SCE's customers in this transaction. Likewise, there will be considerable visibility into this transaction and an ability to review costs and results of this transaction to inform other securitizations on the horizon. In summary, SCE and its underwriters' and advisors' incentives are aligned with those of SCE's customer and Commission interests.

c) SCE's Issuance Advice Letter Process is Standard and Prevents Post-Pricing Issues

SCE proposes that the issuance advice letter, setting forth the final terms of the transaction, automatically be approved and become effective at noon on the fourth business day after pricing unless the Commission earlier issues an order finding that the proposed issuance does not comply with the requirements of the Financing Order.[32] Wild Tree argues that SCE's proposed four-day, post-pricing review of SCE's issuance advice letter is insufficient. As support, Wild Tree references PG&E's 2002 interest rate hedging request to show that "a similar four day review period scheme has been proposed to this Commission before" and was "most emphatically deemed unreasonable."[33] What Wild Tree does not mention, although it clearly should be aware,[34] is that one year later, the Commission approved a four-day advice letter review period between pricing and filing, *effective upon filing,* in PG&E's 2004 securitization.[35] In fact, this Commission has approved the use of this specific type of Issuance Advice Letter process in prior financing orders.[36]

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[32] Exhibit SCE-03, pp. 26-27.

[33] Wild Tree Opening Brief, p. 15.

[34] Wild Tree cites D.04-11-015 seven times in its Opening Brief.

[35] D.04-11-015 ("Conclusion of Law No. 43. To implement the DRC for each series of Energy Recovery Bonds, PG&E should file an Issuance Advice Letter no later than four days after each series is priced. The Issuance Advice Letter should be effective upon filing and based on the *pro forma* example contained in Appendix D of A.04-07-032.).

[36] See generally *In the Matter of the Application of the Southern California Edison Company (U 338-E) For: (1) Authority to Reduce Rates Effective January 1, 1998; (2) Authority to Sell or Assign Transition Property to One or More Financing Entities; (3) Authority to Service Application 97-05-018 Rate Reduction Bonds on Behalf of Financing Entities; (4) Authority to Establish Charges (Filed May 6, 1997) Sufficient to Recover Fixed Transition Amounts; and (5) Such Further Authority Necessary for Edison to Carry out the Transactions Described in this Application,* Decision 97-09-056, September 3, 1997.

Securitization transactions close on a five-day settlement cycle (known as "T+5").[37] The period after pricing must be *pro forma*, limited to mathematical corrections or clear violations of the Financing Order. This necessarily short, post-pricing window should *not* be used for other substantive review, in order to provide certainty for investors and ensure the best pricing for the life of the bonds, for the benefit of ratepayers.[38] This is why SCE proposes to share drafts of the issuance advice letter with the Commission well before pricing to allow sufficient time for all substantive pre-financing issues to be resolved in compliance with the Financing Order.[39]

d) SCE Has Supported its Proposed Bond Maturity, But Does Not Oppose Building Flexibility Into the Financing Order, Should the Commission Want to Consider a Longer Maturity Than 18 Years

TURN, EPUC, and Wild Tree question the 18-year tenor of the Recovery Bonds. TURN and EPUC suggest that a repayment period closer to the 23 weighted average expected lives of the capital assets being securitized, could reduce rates on a present value basis and would avoid intergenerational equity issues. TURN states that "SCE failed to look at even this critical alternative."[40] This is wrong, as explained in SCE's Opening Brief. SCE ran several sensitivity analyses with Barclays and considered various alternatives, including a 23-year maturity.[41] SCE and Barclays together agreed that 18 years was the optimal maturity, taking into account many factors.

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37 To SCE's knowledge, all utility securitizations have been settled in this timeframe. Certainly, the three most recent utility securitization financings have specified such timing in their prospectuses. *See* AEP Texas Restoration Funding LLC Prospectus dated September 11, 2019 at p. 124 at https://www.sec.gov/Archives/edgar/data/1721781/000114036119016639/nt10002760x12_424b1.htm; PSNH Funding LLC 3 Prospectus, May 2, 2018, at p. 104 at https://www.sec.gov/Archives/edgar/data/1730300/000104746918003424/0001047469-18-003424-index.htm; and Duke Energy Florida Project Finance LLC Prospectus dated June 17, 2016 at page 141 at https://www.sec.gov/Archives/edgar/data/37637/000104746916013865/a2228973z424b1.htm.

38 This is due to the limited number of market and security risk days that investors are willing to take transaction risk. This 5-day, limited post-pricing review reduces transaction costs that would need to be paid (a premium) for this increased transaction uncertainty.

39 SCE Opening Brief, p. 17.

40 TURN Opening Brief, p. 8.

41 SCE Opening Brief, p. 12-13.

Wild Tree's attacks on SCE's structural consideration is baseless. First, Wild Tree incorrectly states that "SCE also makes the wild claim that the *mandated requirements of the statute* must be 'balanced' against the demands of investors and *underwriters*."[42] SCE made no such wild claim.[43] SCE instead explained that SCE, in consultation with its financial advisor, determined the structure, including the maturity, by balancing many factors, including investor maturity preference, size of potential investor base at each maturity, perceived investor liquidity, investor risk appetite and historic and relative pricing comps at different tenors.[44]

Wild Tree then argues that these considerations are irrelevant to compliance with AB 1054, which directs that the applicant must "reduce rates to the maximum extent possible."[45] These other factors are absolutely relevant, they impact the marketability, investor demand and achieving the tightest spread possible for the securitization bonds and therefore go to the heart of reducing costs to customers.

Wild Tree would have SCE consider nothing but the present value at various maturities. Such rigid adherence to the "maximum extent possible" language in the statute, taken to this extreme, will prevent any financing order from issuing under AB 1054, ever. SCE could, for example, seek a tenor with a 100-year payback period, which would certainly reduce costs to customers on a net present value basis. But even such an absurd maturity would not reduce costs to the *maximum* extent possible. It is unlikely SCE would be able to sell such a bond, but, according to Wild Tree's strained interpretation, the statute would prohibit SCE from taking this or any other considerations into account.

As explained in its Opening Brief, SCE has analyzed bond maturities for various financing options and has taken appropriate considerations into account.[46] SCE has proposed

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42 Wild Tree Opening Brief, p. 11 (emphasis added).
43 Wild Tree cites WTF-SCE001 Q.014a. Entirely absent from SCE's answer to this data request is a statement that the *mandated requirements of the statute* must be balanced against the demands of the *underwriters*.
44 WTF-SCE-001 Q.014a.
45 Wild Tree Opening Brief, p. 11-12.
46 SCE Opening Brief, pp. 13-15.

these terms in its draft financing order attached as Appendix D to its Application. SCE likely does not anticipate needing to go beyond these terms (e.g., a longer maturity than 18 years) for this transaction, however SCE structured its Application to create flexibility to go above 18 years in future financing order requests. That said, SCE is not opposed to changes to the Financing Order that provide flexibility to select a longer timeframe (e.g., "up to 30 years") for this transaction. With this update to the requested Financing Order, SCE would work with the Commission's Energy Division during the post-Financing Order, pre-issuance period to determine the maturity level.

e) The Proposed Alternative, Awaiting Approval of All AB 1054 CapEx Before A Single Securitization Application Is Filed, Is Inconsistent With the Statute and Produces Lower Net Benefits Than SCE's Approach

As SCE explained in its Opening Brief, the statute requires *one* comparison – SCE's proposed approach of financing Recovery Costs through securitization compared to traditional utility debt and equity financing of those costs. SCE provided this analysis, which showed substantial benefits even when common equity is excluded. The statute *does not* require SCE to compare its approach of securitizing eligible Recovery Costs now versus waiting until all AB 1054 CapEx becomes eligible, as TURN originally suggested. In fact, in requiring that the Commission develop a process for future financing order requests, the statute clearly contemplates multiple financing orders. The statute also does not require SCE to securitize *any costs at all* and Section 850.1(a)(1)(A) only applies to *eligible* Recovery Costs.[47] The statute should not be interpreted to require, as part of the customer benefits analysis, consideration of costs that are not even eligible for securitization and are not required to be securitized at all, even if eligible. TURN is therefore incorrect in suggesting that SCE's Application was somehow

[47] SCE Opening Brief, p. 11.

deficient for failure to analyze this as "one of the numerous scenarios . . . before it reached its conclusion."[48]

To address parties' questions raised in protests and at the Prehearing Conference regarding the cost of a phased approach versus a delayed, single filing,[49] SCE did provide an illustrative comparison in Supplemental Testimony.[50] This Supplemental Testimony demonstrated the savings to customers from SCE's phased approach resulting from reduced pre-securitization debt financing costs and lower bond interest rates.[51] ALJ Jungreis allowed intervenors to serve responsive supplemental testimony "*solely* for purposes of addressing the subject of phased securitization versus a single securitization."[52] Only Wild Tree served supplemental testimony and it was non-responsive. Instead, Wild Tree's supplemental testimony included pages of out-of-scope testimony, which was reiterated in its Opening Brief,[53] describing the inputs needed for pre-pricing modeling *under either a single or multi-phased scenario* and criticizing SCE's marketing and structuring plans, again *under either scenario*.[54]

Wild Tree accepts that SCE's strategy of dividing up issuances over multiple periods may reduce the impact of market volatility over time.[55] But Wild Tree then adds that "if SCE is worried about *climbing* interest rates, this benefit is offset by the risk that when additional

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48 TURN Opening Brief, p. 7.

49 TURN Protest, p. 2-4; A.20-07-008, Prehearing Conference Reporter's Transcript (September 4, 2020), pp. 37:25-39:5.

50 Exhibit SCE-03A.

51 Exhibit SCE-03A (demonstrating that SCE's phased execution strategy could save customers approximately $23 – $53 million on a nominal basis over a single, delayed securitization). On a net present value basis, the savings are approximately $12 - $28 million. TURN-SCE-003 Q.001. The actual savings to customers from the phased approach compared to a single, delayed securitization depends on the timing and amount of Commission approval of costs that can be financed through securitization as well as the time it takes for the financing order approval.

52 Emphasis added.

53 Wild Tree Opening Brief, pp. 8-9.

54 Wild Tree's Supplemental Testimony of Steven Heller is entirely beyond the scope of "the subject of phased securitization versus a single securitization." Wild Tree's "comparison" simply criticizes SCE's approach to structuring and marketing the bonds, *under either a phased or single securitization scenario*. In the interest of moving the proceeding forward and promoting a full record, SCE has not filed a motion to strike. Nevertheless, Wild Tree's supplemental testimony should be afforded zero weight.

55 Wild Tree Opening Brief, p. 10.

amounts are financed, interest rates will have already climbed/ increased."[56] This makes no sense. If interest rates climb, as they are forecast to do, SCE will at least have locked in a lower rate for current eligible amounts. This is a compelling reason to securitize eligible amounts now, without delay, to lock in the savings for ratepayers for the life of the Recovery Bonds. Wild Tree then argues that SCE's comparison is "based on a prediction of higher interest rates and not on sound financial analysis," which begs the question of why Wild Tree assumes that forecasts of interest rates would *not* be part of a sound financial analysis. Finally, Wild Tree argues that "if SCE's phased execution analysis is conducted with a constant interest rate, then the phased execution strategy would cost ratepayers more than a single issuance."[57] This is irrelevant, because interest rates are not held constant, and expectations are that interest rates will rise in the next several years, as indicated by the several interest rate forecasts from third parties used in SCE's analysis.[58] Neither assuming a constant interest rate nor ignoring interest rate forecasts are examples of sound financial analysis.

f) EPUC's and CLECA's Arguments on the Issue of Customer Benefits Are Easily Disposed of

SCE also addressed in its testimony and Opening Brief the reasons why the Commission should dispose of arguments by EPUC of alleged shortcomings with SCE's customer benefit analysis. SCE will not repeat those arguments here and respectfully refers the Commission to SCE's testimony and Opening Brief on this issue.[59] Likewise CLECA's arguments support but do not expand upon arguments made by Wild Tree, EPUC and TURN.

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56 Wild Tree Opening Brief, p. 10 (emphasis in the original).
57 Wild Tree Opening Brief, p. 10.
58 Exhibit SCE-03A: IHS Markit, Short-Term Macro Forecast, August 9, 2020, Variable: RMTCM10Y.A.FMS, Yield on 10-year Treasury notes, Quarterly, Annual Percent Change, Bloomberg 10-yr Swaps and 10-year US Treasury Yield implied forwards
59 SCE Opening Brief, pp. 19-22.

g) SCE's Current Tax Proposal Resolves EPUC's Criticisms on Deferred Taxes

EPUC proposes that SCE implement accounting mechanisms which can create deferred taxes which can lower its overall cost of service, separate from the revenue requirement associated with securitization bonds.[60] However, in Exhibit SCE-05, SCE has already described the tax impact of the transaction including the creation of accumulated deferred income taxes ("ADIT") resulting from tax deductions that can be claimed as governed by the IRS's internal revenue code.[61] Further, Exhibit SCE-05 describes SCE's proposed mechanism for returning the interest benefits to customers resulting from this ADIT. Specifically, SCE proposes crediting or debiting these amounts to BRRBA in the period they are realized, similar to its treatment of franchise and property tax impacts, as described in Exhibit SCE-06.

5. SCE's Rate Proposal Is The Appropriate Customer Allocation For Implementing A Fixed Recovery Charge

SCE proposes to allocate the fixed recovery charge using "total distribution" allocation factors adopted in SCE's most-recent GRC Phase 2 proceeding. This is because the underlying recovery costs are distribution infrastructure-related expenditures that would, but for securitization, be allocated to customers based on total distribution revenue allocation factors. CLECA supports SCE's allocation.[62] EPUC does, too, except for a slight modification for customers paying demand charges.[63] Cal Advocates asserts that instead of using SCE's distribution factor allocation, "costs associated with mitigating the risk of wildfires should be

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60 *See* EPUC Opening Brief, pp. 4-5.

61 In addition to the tax impacts associated with this securitization, EPUC suggests that costs that should be deferred and expensed for tax purposes include costs of abandoned assets that were replaced by the new capital investments covered in this securitization. Tax treatment of these costs is outside the scope of this proceeding; any deferred tax impacts associated with historical asset base would be addressed in the GRC. Moreover, due to historical tax accounting elections made for the benefit of ratepayers, SCE is precluded from immediately expensing retired assets for tax purposes, as suggested by EPUC.

62 CLECA Opening Brief, p. 11-12.

63 EPUC Opening Brief, pp. 7-8.

borne equitably by all customer classes because such funds benefit all customers and society as a whole"[64] through an equal cents per kWh allocation.[65] Cal Advocates suggests that "Nevertheless, if the rate design issue cannot be resolved in the instant proceeding, the Commission should address the issue in SCE's upcoming General Rate Case (GRC) Phase 2 proceeding."[66] TURN takes this position, and both Cal Advocates and TURN disagree with SCE's CARE/FERA allocation.

a) TURN's and Cal Advocates' Proposed Allocation Methodology for CARE and FERA Customers Is Neither Required by the CARE Statute Nor Called for by AB 1054

The Commission should reject TURN's and Cal Advocate's proposed allocation methodology for the CARE/FERA exemption, as SCE explains in its Opening Brief. In a nutshell, CARE and FERA are exempt from paying any costs of financing through securitization pursuant to Section 850.1(i). TURN argues that "[a]s a result of this statutory exemption, there are additional amounts that need to be collected from other customer groups. This is consistent with the need to recover from other customers the costs associated with existing CARE and FERA discounts."[67] SCE disagrees.

Section 327(a)(7) provides that the utility must "allocate the costs of the CARE program" on an equal cents per kilowatt hour basis; the costs of the CARE program are the costs that need to be allocated to other customers by virtue of the shortfall due to the CARE discount. But the AB 1054 exemption is not the same as a CARE/FERA discount pursuant to Section 327(a)(7). The AB 1054 exemption, unlike the CARE/FERA discount, does not generate a shortfall *due to the CARE discount* or result in additional costs *of the CARE program*. Under securitization, there is a Fixed Recovery Charge that must be allocated across all paying (nonbypassable) customers.

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64 Ex. PAO-02, p. 1-4.
65 Cal Advocates Opening Brief, p. 2.
66 *Id.*
67 TURN Opening Brief, pp. 11. *See also,* Cal Advocates Opening Brief, pp. 9-11.

The rate allocation methodology established in the GRC Phase 2 provides for how to allocate these distribution costs, using a distribution factor. Accordingly, those costs should be allocated to residential and non-residential customers through the distribution allocation methodology.

b) EPUC's Request for a Demand Charge is More Appropriately Addressed in SCE's Upcoming GRC Phase 2

EPUC argues that SCE's allocation "falls short for those customers that pay for distribution service through base rates that are charged on a demand basis. In order to avoid potential intra-class subsidies, consistent with just and reasonable ratemaking, SCE should be required to align the FRC distribution cost recovery with the standard distribution cost recovery."[68] Given the difficulty of including this more complicated bill presentation on customer bills (especially in the interim period discussed in Exhibit SCE-06, Section V), SCE proposes to address any adjustments to restore the relationship between distribution energy and demand charges for non-residential customer groups in SCE's upcoming GRC Phase 2 proceeding.

c) SCE's Bill Presentation Meets the Statutory Standard

Only TURN and CUE comment on bill presentation issues, with CUE supporting SCE's presentation and TURN raising issues addressed in SCE's Opening Brief.[69] SCE will not revisit those points here, as SCE does not believe there are material issues in dispute.

6. The Required Contents of a Financing Order

SCE submitted a form of financing order ("Financing Order") as Appendix D to its Application. In its Opening Brief, SCE proposed a slight modification to paragraph 10 of the Financing Order to more completely describe how the Fixed Recovery Charges will be collected in the case of customer generation.

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[68] EPUC Opening Brief, p. 9 (internal citation omitted).
[69] SCE's Opening Brief, pp. 27-28, with SCE's revised, proposed bill language appearing on p. 28.

As set forth above under Subsection 4, SCE already includes variants of the additional provisions that Wild Tree proposes to the financing order.[70] SCE submits that there is no need to modify its Financing Order, except to (i) clarify Ordering Paragraph 10, and (ii) if the Commission chooses, to expand the maturity to "up to 30 years,"[71] as discussed in Section 4(d), and add certification language.

7. Continued Reporting Compliance

Cal Advocates has reviewed SCE's proposals for compliance and reporting and finds these to "be appropriate and adequate to ensure the Commission's oversight of SCE's securitization process"[72] Cal Advocates also recommends that "as part of a subsequent Financing Order application, SCE should provide an evaluation relative to its initial $337 million tranche proposal and the actual results of that proposal showing the extent of SCE's ability to provide the lowest practical total cost to the utility consumers."[73] SCE agrees with this recommendation and views this as an opportunity to provide additional transparency around the transaction process and to identify areas for process improvements going forward.

8. The Appropriate Procedures To Establish For Future SCE Financing Order Applications, In Compliance With Public Utilities Code § 850.1(a)(1)(B)

a) SCE's Procedure for Future Financing Order Requests is Reasonable

Parties (other than CUE) oppose SCE's proposal to use a Tier 3 advice letter for future financing order requests, despite clear statutory language supporting SCE's approach. SCE explained in its Opening Brief why the Advice Letter process is appropriate for similar follow-on financing order requests and cautions that a formal application may unnecessarily draw on scarce Commission resources, time and expenses. SCE also addressed in its Opening Brief why 60 days

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[70] Wild Tree Opening Brief, pp. 32-33.
[71] This change would impact Appendix D, p. 6, p. 14, p. 50 (Finding of Fact 5), and p, 75 (Ordering Paragraph 2).
[72] PAO Opening Brief, pp. 14-15.
[73] Exhibit PAO-1, p. 9.

is an adequate amount of time in light of this proceeding and that the primary concerns of intervenors will have been resolved in this proceeding.[74]

b) Wild Tree's Request for a Rulemaking Lacks Basis

Wild Tree states that instead of an advice letter process, the Commission should issue a rulemaking for future securitizations.[75] Wild Tree bases this proposal on the expectation that there are many other upcoming securitizations, including PG&E's pending request and potential requests under Assembly Bill 913 and that these impact all IOUs. There are several reasons why Wild Tree's rulemaking argument fails. First, this proceeding does not impact PG&E's securitization, which is under a different statute and for a different purpose. Second, the plain reading of the statute does not contemplate an omnibus rulemaking. The statute refers to "a procedure for the electrical corporation to submit applications for future financing orders" in reference to the electrical corporation that had already filed the application for an initial financing order. The statute requires that a procedure for future financing orders must be included in the utility's initial financing order. Moreover, such an omnibus rulemaking could not be accommodated in the statutory 120-day timeframe, which applies not only to the initial financing order application but also to the establishment of the follow-on procedure. Finally, companion legislation on the creation of the Wildfire Fund establishes such a rulemaking.[76] Had the Legislature intended to include a rulemaking requirement here, it would have done so expressly. There is no basis for reading this requirement into the statute.

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[74] SCE Opening Brief, pp. 32-34.
[75] Wild Tree Opening Brief, pp. 36-37.
[76] Section 3289(a)(1) ("no later than July 26, 2019, the commission shall initiate a rulemaking proceeding to consider using its authority pursuant to Section 701 to require each electrical corporation . . . to collect a nonbypassable charge from ratepayers of the electrical corporation to support the fund . . .).

c) Parties Have Had Sufficient Time to Create a Record

Several parties claim that SCE's failure to timely respond to certain intervenors' data requests shows SCE's own inability to work within the expedited timeframe that SCE proposes. To clarify, SCE was timely in responding to every one of the intervenors' data requests. The normal time for submitting data request responses is 10 business days. At the September 4, 2020 prehearing conference, SCE agreed to an expedited schedule of five business days. As shown in the table below, SCE submitted all data request responses within the applicable deadlines.

Data Request	Date DR Served	Due Date	Final submission date*	No. of business days to complete
PAO-SCE-001-LMW	24-Aug-20	3-Sep-20	4-Sep-20	9 (pre-PHC ruling)
PAO-SCE-002-NC	4-Sep-20	11-Sep-20	11-Sep-20	5
TURN-SCE-001	8-Sep-20	15-Sep-20	15-Sep-20	5
WTF-SCE-001	9-Sep-20	16-Sep-20	16-Sep-20	5
TURN-SCE-002	10-Sep-20	17-Sep-20	17-Sep-20	5
WTF-SCE-002	10-Sep-20	17-Sep-20	17-Sep-20	5
TURN-SCE-003	14-Sep-20	21-Sep-20	17-Sep-20	3
WTF-SCE-003	14-Sep-20	18-Sep-20	17-Sep-20	3
PAO-SCE-002-LMW	15-Sep-20	21-Sep-20	17-Sep-20	2
EPUC-SCE-001	14-Sep-20	21-Sep-20	21-Sep-20	5
TURN-SCE-004	15-Sep-20	22-Sep-20	18-Sep-20	3
*Where Data Request responses were served in batches, final submission date indicates when final response in the set was served.				

The table shows also show that Cal Advocates submitted its first data request on August 24, 2020. As of that date, SCE had already held two thorough informational meetings with Cal Advocates, at Cal Advocates' request and at which Cal Advocates asked at least 25 detailed questions about SCE's Application. In fact, Cal Advocates first reached out on July 29, 2020, just three weeks after SCE's Application filing. No other party even submitted a data request until significantly later – after the September 4, 2020 prehearing conference. Moreover, intervenors asked only a handful of questions at SCE's information session and did not take SCE up on its offer to hold a second session. Given intervenors' delay in propounding discovery, their

underutilization of the forums available to them to ask SCE questions, and SCE's timely response to every data request, it is reasonable to conclude that a 60-day advice letter process for similar follow-on financing order requests is, in fact, workable.

III.

CONCLUSION

For all the reasons set forth in this Reply Brief, SCE has met its burden of proof to demonstrate the securitization application meets the requirements of Section 850, *et seq*. It should be granted expeditiously.

Respectfully submitted,

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